

**Department of the Treasury**

**For the Year Ended  
June 30, 2000**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 22, 2000

Members of the General Assembly  
and  
The Honorable Steve Adams, Treasurer  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of the Treasury for the year ended June 30, 2000.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of the Treasury**  
For the Year Ended June 30, 2000

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the Department of the Treasury's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee and the financial statements of the Criminal Injuries Compensation Fund, the Claims Award Fund, the Chairs of Excellence Fund, the Flexible Benefits Plan, the Baccalaureate Education System Trust-Educational Services Plan, the State Pooled Investment Fund, and the Bond Refunding Fund; to determine compliance with certain provisions of laws, regulations, contracts, and grants; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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**Audit Report**  
**Department of the Treasury**  
**For the Year Ended June 30, 2000**

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# **Department of the Treasury For the Year Ended June 30, 2000**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Department of the Treasury. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **BACKGROUND**

The State Treasurer, a constitutional officer, is elected by a joint session of the General Assembly for a two-year term. Although no duties are prescribed by the constitution, the functions and duties of the office are assigned through various statutes. These functions and duties include maintaining accountability for and management of public funds and administering the Tennessee Consolidated Retirement System, the Local Government Investment Pool, the Uniform Disposition of Unclaimed Property Act, the Criminal Injuries Compensation Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust, and the state’s Deferred Compensation and Flexible Benefits Plans. The Treasurer also administers the settlement of claims against the state through the Tennessee Claims Commission and the Division of Claims Administration.

The Treasurer is required by statute to be a member of many boards and commissions, including the following:

Board of Equalization  
Board of Trustees of the Tennessee Consolidated Retirement System  
Funding Board  
Public Records Commission  
State Building Commission  
State Insurance Committee  
State School Bond Authority

Tennessee Competitive Export Corporation  
Tennessee Housing Development Agency  
Tennessee Local Development Authority  
Tennessee Student Assistance Corporation

## ORGANIZATION

The department is divided into nine major sections: Staff Services, Investments, Baccalaureate Education System Trust (BEST), Information Systems, Management Services, Tennessee Consolidated Retirement System (TCRS), Accounting, Unclaimed Property/Claims Administration, and Risk Management. The TCRS is audited and reported on separately.

The **Staff Services** section includes personnel administration, budgeting and fiscal control, research and development of special projects, internal audit, and legal services.

The **Investments** section invests the pension fund to maximize the return on investments and to protect the retirement system's assets. This section also invests the state's available cash in certificates of deposit in state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and agency obligations, and certain obligations of the State of Tennessee.

The **BEST** section is responsible for the operation of the state's prepaid college tuition plan (Educational Services Plan) and college savings plan (Educational Savings Plan).

The **Information Systems** section provides the department with data processing services, and **Management Services** provides centralized services, including physical facilities management, forms control and copying, safekeeping, remittance receiving, and operation of the Federal Reserve wire transfer facility used to send, receive, and transfer funds for the State Trust of Tennessee.

The **Accounting** section is responsible for maintaining detailed accounting records for all divisions of the department. This includes maintaining general ledger accounting and reporting for the Tennessee Consolidated Retirement System, the Chairs of Excellence Program, the Local Government Investment Pool, and the Cash Management Investment Program. The section is also responsible for reconciling approximately 200 bank accounts and maintaining the state's warrant reconciliation system (Account Reconciliation Package, or ARP).

The **Unclaimed Property/Claims Administration** section takes custody of abandoned property (bank accounts, insurance policies, etc.) and attempts to locate the rightful owners or heirs. The Division of Claims Administration administers the Workers' Compensation program for state employees and the Criminal Injuries Compensation Fund. The division reviews and determines eligibility for payment from the Criminal Injuries Compensation Fund. Payments are made as funds become available.

The **Risk Management** section administers a variety of insurance programs for the state. These programs provide protection to the state against property damage, boiler explosion, and employee dishonesty.

An organization chart of the department is presented on the following page.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with generally accepted government auditing standards.

The Department of the Treasury is part of the primary government of the State of Tennessee and is accounted for in the general fund. The department administers the Tennessee Consolidated Retirement System, pension trust funds; the Criminal Injuries Compensation Fund, a special revenue fund; the Claims Award Fund, an internal service fund; the Chairs of Excellence Fund, a nonexpendable trust fund; the Baccalaureate Education System Trust-Educational Services Plan and the Flexible Benefits Plan, expendable trust funds; the State Pooled Investment Fund, an external investment pool (which includes the Local Government Investment Pool); and the Bond Refunding Fund, an agency fund.

This audit included all of the above funds except for the Tennessee Consolidated Retirement System, which is reported on in a separate audit report. The following divisions and allotment codes within the State of Tennessee Accounting and Reporting System were covered by this audit:

State Treasurer's Office	309.01
Unclaimed Property	309.04
Criminal Injuries Compensation	313.03
Claims Award Fund	313.10

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## OBJECTIVES OF THE AUDIT

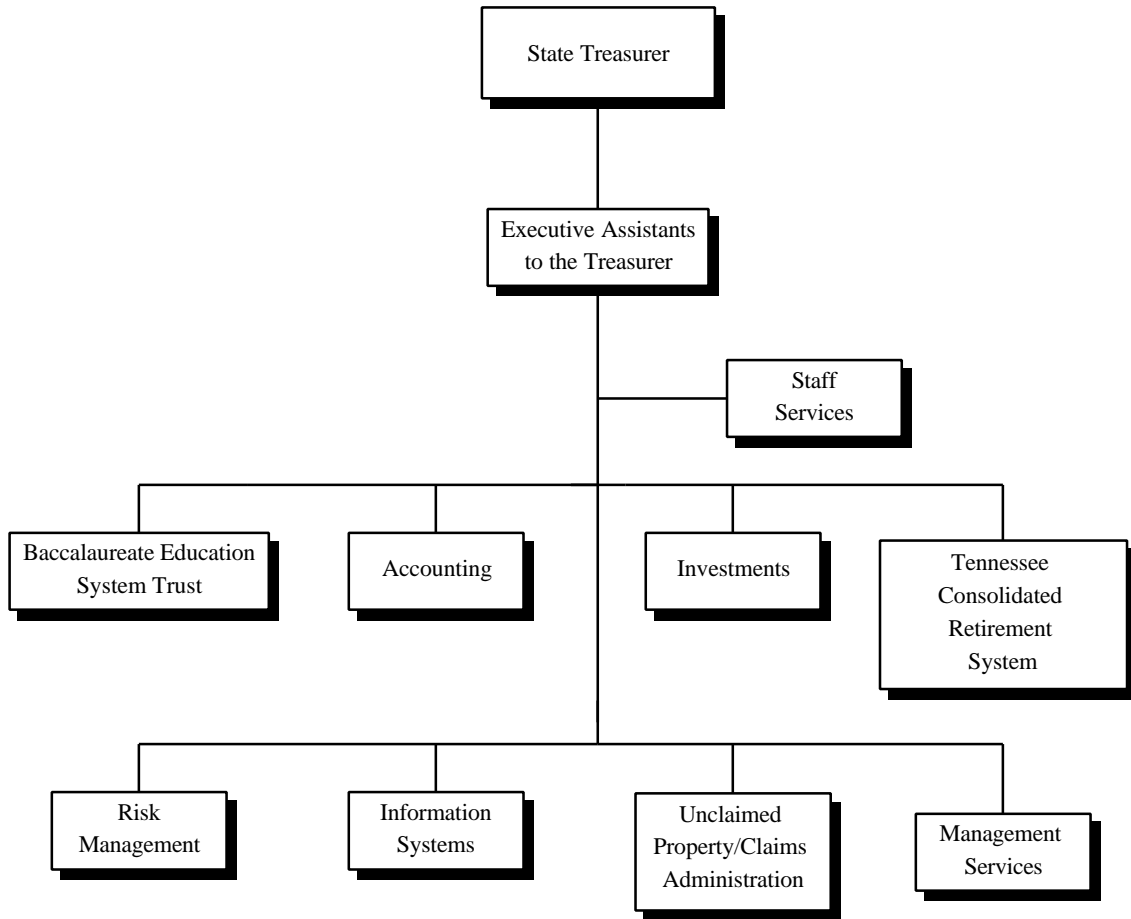
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The objectives of the audit were

1. to consider the Department of the Treasury's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the general-purpose financial statements of the State of Tennessee and the financial statements of the Criminal Injuries Compensation Fund, the Claims Award



**DEPARTMENT OF THE TREASURY  
ORGANIZATION CHART**



Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, the State Pooled Investment Fund, and the Bond Refunding Fund;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants; and
3. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report.

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## **OBSERVATIONS AND COMMENTS**

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*Tennessee Code Annotated*, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of the Treasury filed its compliance report and implementation plan on June 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of the Department of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the general-purpose financial statements of the State of Tennessee and the financial statements of the Criminal Injuries Compensation Fund, the Claims Award Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, the State Pooled Investment Fund, and the Bond Refunding Fund for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
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NASHVILLE, TENNESSEE 37243-0264  
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**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

November 29, 2000

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the general-purpose financial statements of the State of Tennessee and the financial statements of the Criminal Injuries Compensation Fund, the Claims Award Fund, the Chairs of Excellence Fund, the Baccalaureate Education System Trust-Educational Services Plan, the Flexible Benefits Plan, the State Pooled Investment Fund, and the Bond Refunding Fund as of and for the year ended June 30, 2000, and have issued our reports thereon dated November 29, 2000. We conducted our audit in accordance with generally accepted government auditing standards. The Department of the Treasury and the funds it administers are part of the primary government of the State of Tennessee.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan  
November 29, 2000  
Page Two

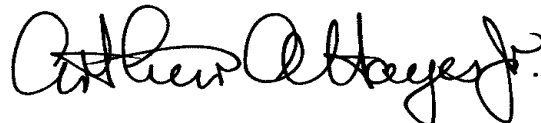
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the department's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/cj